

# City of Detroit

## CITY COUNCIL

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TO: Floyd Stanley, Deputy Director  
Budget Department (Capital Budget)

FROM: Irvin Corley, Jr., Fiscal Analysis Director

DATE: May 3, 2011

RE: 2011-2012 Budget Analysis

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Attached is our budget analysis regarding the Capital Budget for the upcoming 2011-2012 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing. We would then appreciate a written response to the issues/questions by **May 10, 2011**. Please forward a copy of your responses to the Councilmembers and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

IC:ss

Attachment

cc: Councilmembers  
Council Divisions  
Auditor General  
Tom Lijana, Finance Director  
Renee Short, Budget Department  
Denise Gardner, Mayor's Office

## **Capital Budget Hearing and Debt Service Fund**

### **FY 2011-2012 Proposed General Obligation Bond Budget**

### **FY 2011-2012 Budget Analysis by the Fiscal Analysis Division**

The Mayor's 2011-2012 Recommended Budget does not include any general obligation bond sales for citywide capital improvement projects. Unlimited tax general obligation bonds are city debt. The debt service levy for the principal and interest payment on unlimited tax general obligation bonds is over and above the 20 mills for operations. The Headlee Amendment to the State constitution, adopted in 1978, states that unlimited tax general obligation bonds cannot be issued without an affirmative vote of the electorate.

We have been told by the Administration that it is felt that it would be too expensive to sell bonds in the current market, based on the city's current bond ratings. Additionally, there are still no plans to sell the bonds budgeted in the 2007-2008 and 2008-2009 budgets. The Budget Department plans to retract those appropriations in DRMS, so no department mistakenly spends against them.

However, last June, after the 2010-2011 budget was approved, the Administration brought a request to Council for authorization of a \$100 million bond sale. The sale was able to take place at a reasonable rate by pledging future state revenue sharing. Of the \$100 million, \$60 million was appropriated for the purpose of refurbishing the temporary MGM casino for the purpose of a joint Public Safety Headquarters. The other \$40 million was not appropriated and it has not been presented in the proposed 2011-2012 budget.

### **Comparison of Last 6 Capital Budgets and Mayor's Recommended Budget**

2005-2006	2006-2007	2007-2008		2008-2009		2009-2010	2010-2011		2011-2012
<u>Capital</u>	<u>Capital</u>	<u>Capital</u>	<sup>1</sup>	<u>Capital</u>	<sup>2</sup>	<u>Capital</u>	<u>Capital</u>	<sup>3</sup>	<u>Dept.</u> Proposed
\$ -	\$ 5,000,000	\$ (1,000,000)		\$ (3,500,000)		\$ -	\$ -		Airport \$ -
4,800,000	292,000	(99,000)		(100,000)		-	-		DIA -
200,000	1,000,000	(200,000)		-		-	-		MAAH -
-	-	(200,000)		-		-	-		Civ Ctr -
10,000,000	-	-		-		-	-		DOT/DTC. -
2,000,000	-	(2,430,000)		-		-	-		DPW -
-	-	(1,000,000)		-		-	-		E. Mkt -
109,000	1,900,000	(3,500,000)		(5,500,000)		-	-		Fire -
-	-	(4,487,000)		(1,100,000)		-	-		GSD -
-	1,000,000	(5,000,000)		(1,500,000)		-	-		Health -
281,000	500,000	(2,800,000)		(17,200,000)		-	-		Historical -
2,600,000	-	-		-		-	-		HSA Fire -
-	-	(1,000,000)		-		-	-		Library -
1,000,000	-	(7,500,000)		-		-	-		PDD -
20,500,000	5,000,000	(15,000,000)		(17,500,000)		-	60,000,000		Police -

2005-2006	2006-2007	2007-2008		2008-2009		2009-2010	2011-2012		2011-2012
<u>Capital</u>	<u>Capital</u>	<u>Capital</u>	<sup>1</sup>	<u>Capital</u>	<sup>2</sup>	<u>Capital</u>	<u>Capital</u>	<sup>3</sup>	<u>Dept.</u> Proposed
2,800,000	12,900,000	(7,000,000)		(7,000,000)		-	-		PLD
5,800,000	17,550,000	(4,085,000)		(1,000,000)		-	-		Rec
<u>1,500,000</u>	<u>5,000,000</u>	<u>(985,000)</u>	-	<u>-</u>	-	<u>-</u>	-	-	Zoo
\$ 51,590,000	\$ 50,142,000	\$ (56,286,000)		\$ (54,400,000)		\$ -	\$ 60,000,000		Total
									\$ -

Note 1& 2 - Funds never sold to support authorized appropriations –

Note 3 – This appropriation was authorized by Council in the form of a Budget amendment.

### Debt Service Fund - Sinking Interest and Redemption

The Debt Service Fund represents the anticipated appropriation needed to pay debt service in FY 2011-2012 for all past general obligation bond sales. This appropriation is completely offset by the budgeted revenue of property tax, industrial facilities tax and commercial facilities tax that are obligated for the principal and interest payments on outstanding unlimited tax general obligation bonds.

Below, please find a comparison of the 2010-2011 and 2011-2012 Budget for debt service and the applicable tax rate:

	<u>FY 2010-2011</u>	<u>FY 2011-2012</u>	<u>Change</u>	<u>% Change</u>
Appropriation	\$ 80,913,766	\$ 83,503,966	\$ 2,575,407	3.1%
Debt Service Tax Rate	\$ 8.9157 mills	\$ 9.5558	\$ 0.6401	7.1%
Property Valuation	\$ 9,111,881,179	\$8,755,413,994	\$ (356,467,185)	(3.91)%
Collection Factor	88%	88%		

### Questions

1. Two years ago, a contractor was hired to determine if arbitrage occurred. Have they finished their analysis? When will Council receive a report? This question was asked last year and the response indicated the work was not completed. Is it now completed?
2. Please provide Council with a detailed report showing current unspent bond balances.
3. Why weren't interest earnings appropriated to department projects?
4. The budgeted collection rate is 88%. What was the actual collection rate for 2009-2010?